



ANNUAL REPORT **2003** | PARAMOUNT BED CO., LTD.

Statement:

As Human, for Human

Paramount Bed Co., Ltd. founded in 1947, is a pioneer in the field of medical beds. Using its own unique integrated production system, it has been providing products designed not only to improve conditions for convalescing patients, but also to facilitate the work of caregivers for more than half a century. With the ageing of the Japanese population, it has expanded its scope of business to cover facilities for the elderly and home nursing care in recent years, developing home-care beds and various other types of welfare equipment. These initiatives are in line with Paramount Bed's goal of creating a patient-friendly healthcare environment.

The Paramount Bed group consists of Paramount Bed and 2 consolidated subsidiaries (as of March 31, 2003). In the fiscal year to March 2003, it had net sales of ¥45,774 million, operating income of ¥5,891 million and net income of ¥3,127 million. Paramount Bed is Japan's leading maker of medical beds and has acquired a strong reputation, as reflected in its domestic market share of 70% (PB estimate).

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Disclaimer Regarding Forward-Looking Statements

The information contained in this annual report is given for the sole purpose of providing information regarding the business performance of Paramount Bed Co., Ltd. during the fiscal year ended March 31, 2003, and is not intended to solicit investment in any securities issued by the Company. Any statements with respect to Paramount Bed's current plans, strategies and forecasts are forward-looking statements based upon information available as of March 31, 2003, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

Financial Highlights

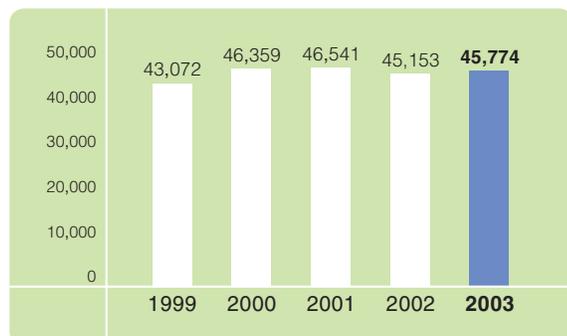
Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
For the year:			
Net sales	¥ 45,774	¥ 45,153	\$ 380,815
Operating income	5,891	4,786	49,010
Income before income taxes	5,521	4,326	45,932
Net income	3,127	2,498	26,015
Per share data (yen):			
Net income	98.29	77.69	0.82
Total shareholders' equity	1,945.48	1,882.47	16.19
At year-end:			
Total assets	74,331	72,822	618,394
Total shareholders' equity	61,148	59,442	508,719

Note: The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.20 to U.S.\$1, the approximate exchange rate at March 31, 2003.

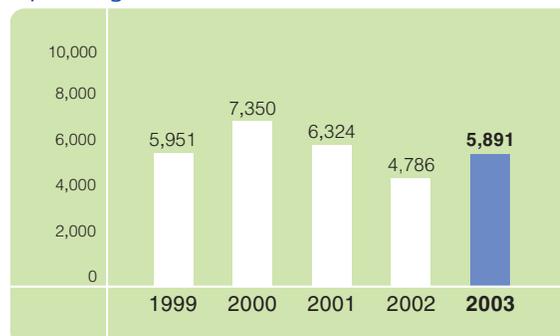
Net sales

Millions of yen



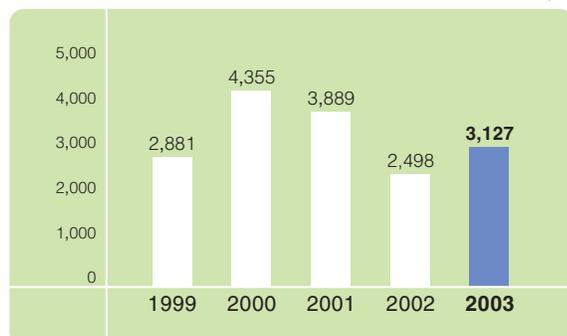
Operating income

Millions of yen



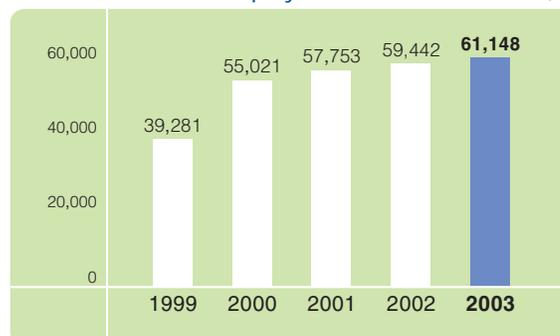
Net income

Millions of yen



Total shareholders' equity

Millions of yen



Striving for stable and sustainable growth through proactive marketing promotion and new business development

Increase of sales and profits in severe business conditions

In fiscal 2003 (year ended March 31, 2003), the harsh business climate continued. In the healthcare sector, measures to reduce Japan's medical expenditures have been implemented by downward revisions in medical treatment fees as well as increases in the personal contribution of medical fees that senior citizens must shoulder themselves. In the welfare sector, fees for nursing-care services have been revised.

In such an adverse environment, the Paramount Bed group has made efforts to reduce costs by boosting efficiency in the production and logistics systems in the past two years or so, so that production and marketing match market trends. Due to these efforts, we have seen growth in both sales and profits for the fiscal year under review (April 1, 2002 - March 31, 2003), as net sales posted ¥45,774 million, up 1.4%, year on year, with operating income at ¥5,891 million, up 23.1%, year on year, and net income of ¥3,127 million, up 25.2%, year on year.

Accordingly, an annual dividend of ¥24 per share was decided for the current term. We will continue to maintain the distribution of annual dividend of ¥24 per share, while further expanding business domains and increasing retained earnings.



Kenji Kimura
President and Representative Director

Commitment to corporate governance

In order to ensure and reinforce the rationality, legitimacy and transparency of our management, we have consolidated our management organization and carried out the necessary policy measures.

The board of directors currently consists of six members. The board meets once a month to facilitate quick decision-making on important management issues, such as compliance with corporate provisions. There are four corporate auditors, including two from outside. They attend every board meeting to offer opinions, and conduct audits on the execution of the directors' duties.

In addition, we introduced an operating officer system in June 2001 to clarify authority and responsibility in executing business operations. Under the supervision of the board of directors, six operating officers endeavor to provide smooth and reliable management operations.

New business development leveraging the comprehensive strength and advantages of the Paramount Bed group

The Paramount Bed group has made remarkable progress in the medical sector, through extensive experience in supplying its products to medical institutions nationwide. Regarding such experience as one of our assets, we have internally considered the development of new business as a means to cultivate new customers for the last two years. Consequently, we have set up two businesses for the current term.

First, we have entered into the maintenance business. With our high level of technology and network, we set up PARA TECHNO Co. Ltd., a wholly-owned subsidiary, in July 2002. The new company provides comprehensive services, such as sterilization/cleaning, maintenance/repair, and leasing of beds and mattresses. In the medical sector, as there is a great

Topics

Development of adjustable bed level system, KIND motion

The function of the backrest raising of the bed used for nursing care on site is one of the essential basic functions for patients' meal assistance, transfer/moving, and assisting patients in getting up. However, sometimes beds do not fit the body or they cause a sensation of pressure when the backrest angle of the bed is raised or lowered. In order to reduce such occurrences, we have developed a comfortable and adjustable bed-control system: KIND motion. The Metis Series hospital beds equipped with this new system were launched in January 2003.

KIND motion is a highly functional control system utilizing a Kyma line lower frame, which curves gently as the bed is extended, in a well-balanced manner based on ergonomic design. The Kyma line mechanism has already been developed and put into practical use (global patents pending).



KIND motion system significantly reduces friction or pressure to the body when the backrest angle of the bed is raised or lowered.

need of safety measures, including those against in-hospital infection, we expect this business to grow as a promising major business when the service lineup is expanded and specialized.

Second, we have established a new brand called INTIME. Based on the Club Paramount Series on which trial marketing has been conducted for the last three years, INTIME will provide sound sleep and excellent health by offering semi-customized mattresses to match the body weight and preference of each customer. With the aging of society, we will identify the needs of the middle-aged and elderly who seek improvement of quality of life (QOL) in health, and will foster INTIME as one of our new businesses.

Strengthening marketing activities and creating new products to bolster our competitive edge

As for the outlook for the fiscal year ending March 2004, medical institutions in the healthcare industry are expected to face an increasingly severe business climate, as the government is taking more severe measures to curb Japan's medical expenditures by such means as raising the personal contributions of salaried workers to 30% of total treatment cost in April 2003, a 10% increase. Besides, market segmentation (specialization and sophistication) is advancing, with an increase in classification of hospital beds according to function (general hospital beds and long-term care beds), which was completed in August 2003.

In the sector of welfare for seniors, while the welfare equipment distribution market continues to slightly expand under the nursing care insurance scheme, the market

Topics

Release of the new brand INTIME

In order to make a full-scale entry into the bedroom/interior market for the health-conscious consumer, which is quite different from our traditional business lines of healthcare and nursing care, we have created a new brand INTIME, which offers "sound sleep and excellent health." In May 2003, we opened our directly-managed brand shops in three major cities, Tokyo, Osaka and Nagoya.

After three years of trial marketing since the introduction of the electric adjustable bed Club Paramount 5121 in 2000, we have confidently established the new brand INTIME embodying both health and design concepts, intending to advance into new business areas. We will continue to offer various other products besides beds and mattresses optimally designed for making the stay in bed more comfortable.



structure, currently led mainly by new demands, is expected to shift gradually toward one led by replacement demand. Concurrently, many types of facilities for seniors are steadily increasing as the number of people seeking residency in such facilities is increasing.

In this business climate, it is of primary importance to respond immediately to customers' diversifying needs. We are developing marketing, sales and service activities to create new products that stimulate customers' trust and willingness to purchase, thereby differentiating our products from peers' products in the sector and improving our competitive edge. Furthermore, we strive to consolidate our financial base and to increase profits by reviewing the overall cost structure of the entire Paramount Bed group.

To assess the healthcare industry, our current business area, the market will be likely to expand slowly as the

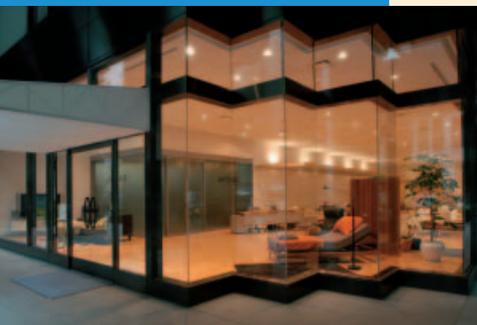
population is aging rapidly. In order to secure sustainable growth of the Paramount Bed group, we think it vital to engage in the above-mentioned new businesses as well as enter overseas markets. As a first step, we will concentrate our efforts on business development in the medical bed market in China.

July 2003



Kenji Kimura
President and Representative Director

INTIME Kyobashi



INTIME 3020

With some improvements to Club Paramount 5121, INTIME 3020 successfully combines health and design concepts. The newly developed Styleport is adopted for the mattress.

Styleport

Styleport is a custom-made mattress with its sturdiness tailored to the body weight and preference of each customer. It provides comfort for both stationary sleepers and those who frequently turn over while sleeping.



Product Line-up

Hospital beds

Beds must provide safety, comfort and ease of operation. Our hospital bed line offers a full range, from sophisticated to standard models. The KA-6000 Series embodies Paramount Bed's next-generation technology.

● Advanced, emergency use



KA-8530 ICU Bed



Multi-Purpose Medical Chair

● Acute care (for special rooms)



KA-6000 Series



Excellent Series

Beds for elderly-care facilities

It is important to prevent residents of elderly-care facilities from falling out of bed. Our ultra-low Callisto beds (Callisto Series) reduce the risk of accident in the event of a fall. (Photo shows bed fitted with Thestor shock-absorbing mattress)



Callisto Series



Woody Bed Series

New products

In the fiscal year ended March 2003, Paramount Bed was proactively introducing new products on the markets.

KA-8000: a new, highly functional bed for a variety of uses – from emergency care to intensive care units,

KY-600 Series: nursing wagons with improved interface and reduced caster noise

Kyma Aura Bed Mini: specially designed, for patients not exceeding 1.5m in height (overall length approximately 11cm shorter than the standard bed).



KA-8000 (Emergency/ICU bed)



KY-600 Series (nursing wagons)



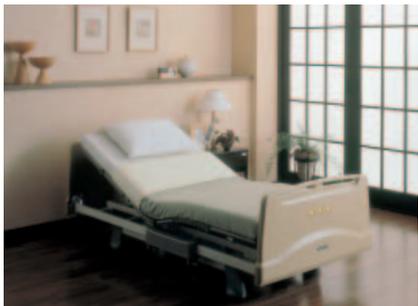
Kyma Aura Bed Mini

Beds for the physically unimpaired (INTIME)

Everyone spends time in bed, and these models are designed to make sleeping more enjoyable.

Home-care beds

Demand for rental home-care beds has grown rapidly since the start of the nursing care insurance program. The Aura 21 Series is designed to cater to varied needs of different users.



Aura 21 Series



Wide Aura Bed



5121 Bed



Relaxing Chair

Bed peripherals

● Mattresses

The Accu Max™, designed to prevent bedsores, and the versatile Preglar Mattress, for use in hospitals, elderly-care facilities and home care.



Preglar Mattress



Accu Max™

● Other Products

Scot-klean is a urine collector that automatically activates to collect urine when it detects the presence of urine. The Mobile Electric Nursing Lift assists in moving patients between bed and wheelchair.

This unit is based on an original concept developed by Paramount Bed. We also offer a wide range of bed peripherals, such as drip stands, designed to maximize usability.



Scot-klean



KK-330S Wheelchair



Nursing Lift



Irrigator Stand

Products to Support Healthcare Safety at Medical Institutions

Growth in sales of products with focus on safety and comfort

In Japan, everyone has the right to medical treatment without anxiety under the universal coverage of public health insurance for the whole Japanese population. However, the population is rapidly aging as birthrates fall. In order to be able to receive medical treatment without worry in the future, it is necessary to carry out fundamental reforms that stabilize the financial side of medical insurance, by such means as moderating healthcare costs, changing the method by which salaried workers bear their personal contribution, and efficiently providing services. As part of the reforms, medical treatment fees have been reduced since April 2002, while the personal contribution of medical fees that senior citizens must pay themselves has been increased. At the same time, the government has been working for improvement of the quality and efficiency of medical treatment. As for the revision of medical treatment fees, “assessment of medical safety measures” has been implemented since October 2002. This consists of “cuts in medical treatment fees for undeveloped medical treatment safety management system” and “cuts in medical treatment fees for no measures against bedsores/pressure ulcer.” The former means that medical treatment fees will be lowered in case any safety management system for medical treatment has not been developed in medical facilities. The latter means that medical treatment fees will be lowered in case proper measures against bedsores/pressure ulcer have not been adopted in medical facilities.

The Paramount Bed group has quickly responded to these revisions, and strives to offer products and services to support users in solving their problems. Products currently on the market include the Callisto Series of low-height beds and the Thestor shock-absorbing mattresses. Both of them support safer management in terms of preventing seniors from falling out of bed and reducing the shock in the event of a fall. Maxi Float Mattress and Para Float Mattress, which will prevent bedsores/pressure ulcer, are also on the market. Sales of all these products has been gradually increasing.

In the fiscal year under review, we launched Accu Max and Overlay, expanding the product lineup for bedsores/pressure ulcer care.

* Pressure ulcers or bedsores are a skin ulcer (caused by avascular necrosis) which appears when a certain amount of pressure is applied to certain parts of the body.

Callisto Series

The Callisto Series is a low-height bed equipped with a Thestor shock-absorbing mattress and a side support rim that prevents the sleeper falling out of bed.



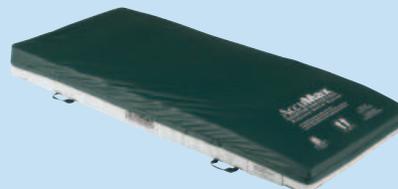
Side Support



Thestor shock-absorbing mattress

Accu Max

Accu Max is a body-weight dispersion mattress, suitable for bedsores/pressure ulcer care in all stages ranging from prevention to alleviating the most severe cases.



Six-year Summary

Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2003, 2002, 2001, 2000, 1999, and 1998

	2003	2002	2001	2000	1999	1998
For the year:						
	Millions of yen					
Net sales	¥ 45,774	¥ 45,153	¥ 46,541	¥ 46,359	¥ 43,072	¥ 47,314
Cost of sales	27,574	27,304	26,836	26,074	25,751	28,015
Gross profit	18,200	17,849	19,705	20,285	17,321	19,299
Selling, general and administrative expenses	12,309	13,063	13,381	12,935	11,370	11,108
Operating income	5,891	4,786	6,324	7,350	5,951	8,191
Net income	3,127	2,498	3,889	4,355	2,881	3,809
Net cash provided by operating activities (*1)	6,194	4,076	4,042	4,761	—	—
Net cash used in investing activities (*1)	(1,615)	(3,948)	(3,715)	(5,373)	—	—
Net cash (used in) provided by financing activities (*1)	(1,198)	(1,040)	(917)	822	—	—
Cash and cash equivalents, end of year (*1)	14,661	11,267	12,158	12,641	—	—
Research and development costs	1,075	983	890	881	733	622
At year-end:						
Total assets	74,331	72,822	72,078	73,524	64,449	64,202
Total shareholders' equity	61,148	59,442	57,753	55,021	39,281	37,247
Per share data:						
	Yen					
Net income	98.29	77.69	122.75	140.45	95.65	126.44
Total shareholders' equity	1,945.48	1,882.47	1,822.88	1,736.65	1,304.00	1,236.48
Value indicators:						
	%					
Return on equity (*2)	5.19	4.26	6.90	9.24	7.53	10.66
Return on assets (*3)	4.25	3.45	5.34	6.31	4.48	6.02
Shareholders' equity ratio	82.26	81.63	80.13	74.83	60.95	58.02

*1) Consolidated statements of cash flows were first prepared for the year ended March 2000.

*2) Return on equity (ROE): Net income / Average total shareholders' equity

*3) Return on assets (ROA): Net income / Average total assets

Overview of Financial Results

In fiscal 2003 (year ended March 2003), the Japanese economy was not yet back on the track to recovery as deflation persisted. The future outlook became more uncertain towards the term-end due to the mounting tension over the situation in Iraq and stagnating stock prices in the global markets, though corporate earnings showed some signs of recovery.

In the healthcare industry, the business climate of medical institutions became harsher because of the first ever reduction in medical treatment fees implemented in April 2002 as well as increases in the personal contribution of medical fees that senior citizens must pay themselves since October 2002. Though the healthcare reform has not progressed beyond the debate stage, the Cabinet decided basic policies for the medical insurance system and the medical treatment fee system, hoping to actually materialize them by fiscal 2008.

In the field of welfare for the elderly, fees for nursing-care services were revised for the first time. Fees for home-care services were raised by 0.1% and those for services offered at nursing-care facilities were lowered by 4.0%, leading to an overall decline of 2.3%. This revision dealt a heavy blow to most nursing-care centers.

Facing such a difficult business climate, the Paramount Bed group (Paramount Bed and two consolidated subsidiaries) allocated funds for capital investment, research and development in order to boost earnings.

As for R&D investment, we started building mission-critical systems for product development, including the full-scale introduction of 3D computer-aided design (CAD) systems, to improve design quality and streamline design/development process. We also upgraded the spraying lines at our Chiba Plant — our main plant — to raise the quality of color finish of products. In addition, we remodeled the showrooms at the head office and the Yokohama branch.

With regard to the development of products, we launched: the Metis Series low-level beds (equipped with a new mechanism, KIND motion, which is designed to drastically reduce the number of occasions when the patient's body does not conform to the bed and the increase in pressure when the bed is raised); a bed for emergency medical care/ICUs (intensive care units); and

a bed for infants. All of these are used in medical facilities. Furthermore, we released various other new products other than beds, including chairs for facilitating blood-collection, nursing trolleys, body weight-dispersal mattresses and cabinets with a built-in IC timer. We expanded the lineup of Kyma Aura Bed, one of our mainstay products for the home-care market, and that of the Club Paramount Series, highly functional family beds.

The customer breakdown shows consolidated sales to medical institutions grew by 2.2%, year on year, in the fiscal year ended March 2003, while sales for home-care use declined by 0.3%, almost unchanged from the previous fiscal year.

Sales by major product category for the fiscal year are as follows.

	Millions of yen		%
	2003	2002	Year-on-year Change
Beds	¥ 26,560	¥ 27,026	(1.7)
Mattresses	4,408	3,922	12.4
Hospital-use furniture	4,128	4,608	(10.4)
Medical-use products	2,884	2,599	11.0
Other	7,794	6,998	11.4
Total	¥ 45,774	¥ 45,153	1.4

As a result, net sales for the fiscal year increased by ¥621 million, or 1.4%, year on year, to ¥45,774 million.

Operating income grew by 23.1%, year on year, to ¥5,891 million, mainly thanks to cost reductions in the manufacturing division and reduction of selling, general and administrative expenses.

Net income soared by 25.2%, year on year, to ¥3,127 million.

Cash Flows

(Cash flows from operating activities)

Net cash (hereinafter referred to as “funds”) inflow from operating activities was ¥6,194 million. The breakdown of inflow showed income before income taxes of ¥5,521 million, depreciation expenses of ¥1,796 million and a decline in inventories of ¥885 million, while the primary items of outflow were a decrease of ¥547 million in notes and accounts payable and payment of income taxes amounting to ¥2,222 million.

(Cash flows from investing activities)

There was a net cash outflow from investing activities for the year of ¥1,615 million, as the expenditures for acquisition of marketable and investment securities surpassed the gain from the sale of such securities by ¥1,738 million.

(Cash flows from financing activities)

There was a net cash outflow of ¥1,198 million resulting from financing activities. This was primarily due to payment of ¥755 million in cash dividends and expenditures of ¥443 million for purchasing own shares.

As a result, funds outstanding at the fiscal year-end totaled ¥14,661 million, up ¥3,394 million from the previous fiscal year.

Issues to Be Addressed and Outlook for the Next Term

With no indication of deflation letting up, the Japanese economy is expected to remain in its current difficult phase in the next fiscal year, as sluggish consumer spending and a harsh employment situation are likely to continue.

In the healthcare industry, medical institutions are expected to face an increasingly severe business climate, since the government is taking more severe steps to curb Japan’s medical expenditures by such means as raising the personal contribution that salaried workers must shoulder to 30% of the total treatment costs from April 2003, a 10% increase. As a result of the review of designating beds according to function, which should be completed by the end of August 2003, the classification of hospital beds by function is sure to increase.

In the sector of elderly welfare, while the welfare equipment distribution market will continue to expand gradually with the nursing care insurance scheme, many types of facilities for the elderly are steadily increasing as the number of those who wish to benefit from facilities are sharply increasing.

Against this backdrop, we are endeavouring to expand sales of a series of new products, including the Metis Series, in the healthcare sector as we intend to capitalize on the business opportunity for the classification of hospital beds by function. Concurrently, we provide maintenance services, which will contribute to the improvement of healthcare safety at medical institutions, through the subsidiary of PARA TECHNO Co., Ltd. established during the fiscal year. Through such efforts, we are striving to improve group earnings. As for overseas markets, we will concentrate our energies particularly on the development of the medical bed market in China.

In the welfare equipment market, we will enhance our “area marketing” strategy and do our utmost to boost sales of support chairs designed to aid patients in getting up to their feets, which were added to the list of rental items certified by the public nursing care insurance in April 2003. In the market of facilities for the elderly, we will enhance marketing activities, mainly led by our market development office.

We will devote ourselves to secure new customers to expand our customer base, by launching a new INTIME brand, through which we will provide users with “peaceful and high-quality sleep”. As an initial step in this strategy, we will launch semi-customized mattresses tailored to the body weight and preferences of each customer.

We integrated the engineering division, the manufacturing division and the quality assurance division into the production division in April 2003 to establish a framework which would comprehensively cover everything from design and development to manufacturing and quality assurance.

Consolidated Balance Sheets

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents	¥ 14,661	¥ 11,267	\$ 121,972
Time deposits		534	
Marketable securities (Note 3)	1,335	2,951	11,106
Notes and accounts receivable:			
Trade notes	5,413	5,763	45,033
Trade accounts	12,328	12,220	102,562
Other	3	6	25
Allowance for doubtful accounts	(42)	(45)	(349)
Inventories (Note 4)	4,476	5,361	37,238
Deferred tax assets (Note 6)	435	367	3,619
Prepaid expenses and other current assets	97	86	807
Total current assets	38,706	38,510	322,013
PROPERTY, PLANT AND EQUIPMENT:			
Land	8,371	8,385	69,642
Buildings and structures	21,059	21,155	175,200
Machinery and equipment	11,839	11,598	98,494
Construction in progress	12		100
Total	41,281	41,138	343,436
Accumulated depreciation	(19,905)	(18,623)	(165,599)
Net property, plant and equipment	21,376	22,515	177,837
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	10,483	7,864	87,213
Life insurance premium	777	861	6,464
Deferred tax assets (Note 6)	597	464	4,967
Other assets	2,392	2,608	19,900
Total investments and other assets	14,249	11,797	118,544
TOTAL	¥ 74,331	¥ 72,822	\$ 618,394

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
CURRENT LIABILITIES:			
Notes and accounts payable:			
Trade notes	¥ 1,386	¥ 1,778	\$ 11,531
Trade accounts	5,670	6,036	47,171
Other	1,141	930	9,492
Income taxes payable (Note 6)	1,577	1,265	13,120
Accrued expenses	1,187	1,090	9,875
Other current liabilities	463	526	3,852
Total current liabilities	11,424	11,625	95,041
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 5)	1,419	1,441	11,805
Liability for directors' and corporate auditors' retirement benefits	336	314	2,796
Other long-term liabilities	4		33
Total long-term liabilities	1,759	1,755	14,634
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 9 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 12):			
Common stock — authorized, 100,000,000 shares; issued, 31,682,526 shares	6,591	6,591	54,834
Capital surplus	7,277	7,277	60,541
Retained earnings	48,065	45,731	399,875
Unrealized loss on available-for-sale securities	(153)	(52)	(1,273)
Foreign currency translation adjustments	92	175	765
Treasury stock — at cost, 270,568 shares in 2003 and 106,109 shares in 2002	(724)	(280)	(6,023)
Total shareholders' equity	61,148	59,442	508,719
TOTAL	¥ 74,331	¥ 72,822	\$ 618,394

Consolidated Statements of Income

Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
NET SALES	¥ 45,774	¥ 45,153	\$ 380,815
COST OF SALES	27,574	27,304	229,401
Gross profit	18,200	17,849	151,414
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	12,309	13,063	102,404
Operating income	5,891	4,786	49,010
OTHER INCOME (EXPENSES):			
Interest and dividend income	217	318	1,805
Foreign exchange (loss) gain	(132)	177	(1,098)
Loss on sales of investment securities		(306)	
Loss on devaluation of investment securities	(326)	(523)	(2,712)
Other — net	(129)	(126)	(1,073)
Other expenses — net	(370)	(460)	(3,078)
INCOME BEFORE INCOME TAXES	5,521	4,326	45,932
INCOME TAXES (Note 6):			
Current	2,533	1,681	21,073
Deferred	(139)	147	(1,156)
Total income taxes	2,394	1,828	19,917
NET INCOME	¥ 3,127	¥ 2,498	\$ 26,015

	Yen		U.S. dollars
PER SHARE OF COMMON STOCK (Note 2.m):			
Net income	¥ 98.29	¥ 77.69	\$ 0.82
Cash dividends applicable to the year	24.00	24.00	0.20

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2003 and 2002

	Thousands		Millions of yen				
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	31,683	¥ 6,591	¥ 7,277	¥ 44,059	¥ (178)	¥ 4	
Net income				2,498			
Cash dividends, ¥24 per share				(760)			
Bonuses to directors				(66)			
Net decrease in unrealized loss on available-for-sale securities					126		
Net increase in foreign currency translation adjustments						171	
Increase in treasury stock (105,997 shares)							¥ (280)
BALANCE, MARCH 31, 2002	31,683	6,591	7,277	45,731	(52)	175	(280)
Net income				3,127			
Cash dividends, ¥24 per share				(756)			
Bonuses to directors				(37)			
Net increase in unrealized loss on available-for-sale securities					(101)		
Net decrease in foreign currency translation adjustments						(83)	
Increase in treasury stock (164,459 shares)							(444)
BALANCE, MARCH 31, 2003	31,683	¥ 6,591	¥ 7,277	¥ 48,065	¥ (153)	¥ 92	¥ (724)

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2002	\$ 54,834	\$ 60,541	\$ 380,458	\$ (433)	\$ 1,456	\$ (2,329)	
Net income			26,015				
Cash dividends, \$0.20 per share			(6,290)				
Bonuses to directors			(308)				
Net increase in unrealized loss on available-for-sale securities				(840)			
Net decrease in foreign currency translation adjustments					(691)		
Increase in treasury stock (164,459 shares)							(3,694)
BALANCE, MARCH 31, 2003	\$ 54,834	\$ 60,541	\$ 399,875	\$ (1,273)	\$ 765	\$ (6,023)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,521	¥ 4,326	\$ 45,932
Adjustments for:			
Income taxes — paid	(2,222)	(1,982)	(18,486)
Depreciation and amortization	1,796	1,954	14,942
Loss on sales of investment securities		306	
Loss on devaluation of investment securities	326	523	2,712
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	241	(957)	2,005
Decrease in inventories	885	527	7,363
Increase in prepaid expenses and other current assets	(11)	(32)	(91)
Decrease in notes and accounts payable	(547)	(42)	(4,551)
Increase (decrease) in accrued expenses and other current liabilities	34	(74)	283
Decrease in directors', corporate auditors' and employees' retirement benefits		(529)	
Other — net	171	56	1,422
Net cash provided by operating activities	6,194	4,076	51,531
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits	534	(534)	4,442
Purchases of marketable securities	(1,100)	(2,302)	(9,151)
Proceeds from sales of marketable securities	4,063	3,482	33,802
Purchases of property, plant and equipment	(411)	(1,216)	(3,419)
Purchases of investment securities	(5,242)	(5,065)	(43,611)
Proceeds from sales of investment securities	541	1,723	4,501
Increase in other assets		(36)	
Net cash used in investing activities	(1,615)	(3,948)	(13,436)
FINANCING ACTIVITIES:			
Purchases of treasury stock — at cost	(443)	(283)	(3,686)
Proceeds from sales of treasury stock — at cost		3	
Cash dividends paid	(755)	(760)	(6,281)
Net cash used in financing activities	(1,198)	(1,040)	(9,967)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	13	21	108
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,394	(891)	28,236
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,267	12,158	93,736
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 14,661	¥ 11,267	\$ 121,972

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2002 consolidated financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Paramount Bed Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.20 to \$1, the rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2003 include the accounts of the Company and its two (one in 2002) subsidiaries (together, the "Group").

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and mutual funds investing in bonds, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are stated at cost determined by the average cost method and the most recent purchase price method.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

- (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and
- (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. The cost of securities sold is determined based on the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the declining-balance method while the straight-line method is applied to the buildings of the Company acquired after April 1, 1998. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment.

f. Retirement and Pension Plans — The Company has an unfunded severance indemnity plan partially supplemented by a qualified pension plan and a welfare annuity plan. The consolidated foreign subsidiary adopts a national welfare pension system of the country where the subsidiary is located.

The Group accounts for liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors of the Company are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

g. Research and Development Costs — Research and development costs are charged to income as incurred.

h. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are

permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

i. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. Appropriations of Retained Earnings — Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

k. Foreign Currency Transactions and Financial Statements —

All short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that derivatives for foreign currency transactions do not qualify for hedge accounting.

The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date.

l. Derivatives and Hedging Activities — The Group uses derivative financial instruments ("derivatives") to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of

income. Gains or losses on derivatives are deferred until maturity of the hedged transactions, if derivatives used for hedging purposes qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items.

The foreign exchange forward contracts, which qualify for hedge accounting employed to hedge foreign exchange exposures for import purchases, are translated at the foreign exchange rate stipulated in the contract.

m. Per Share Information — Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible securities at the beginning of the year with an applicable adjustment for related interest expense, net of tax.

Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard. Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Government and corporate bonds	¥ 1,335	¥ 2,951	\$ 11,106
Non-current:			
Marketable equity securities	¥ 255	¥ 428	\$ 2,122
Non-marketable equity securities	823	333	6,847
Government and corporate bonds	6,246	3,967	51,963
Trust fund investments and other	3,159	3,136	26,281
Total	¥ 10,483	¥ 7,864	\$ 87,213

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2003 and 2002 were as follows:

March 31, 2003	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 278	¥ 1	¥ 24	¥ 255
Debt securities	6,648	62	129	6,581
Others	3,381	5	227	3,159
Held-to-maturity	1,000		70	930

March 31, 2002	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 488	¥ 12	¥ 72	¥ 428
Debt securities	4,381	58	86	4,353
Others	3,138	71	73	3,136
Held-to-maturity	2,565	10	36	2,539

March 31, 2003	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 2,313	\$ 8	\$ 200	\$ 2,121
Debt securities	55,308	516	1,074	54,750
Others	28,128	42	1,889	26,281
Held-to-maturity	8,319		582	7,737

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		Thousands of U.S. dollars
	Millions of yen	2002	
Available-for-sale—Equity securities	¥ 823	¥ 333	\$ 6,847

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥938 million (\$7,804 thousand) and ¥2,229 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥0 million (\$5 thousand) gains for the year ended March 31, 2003 and ¥0 million gains and ¥306 million losses for the year ended March 31, 2002.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 were as follows:

March 31, 2003	Millions of yen		Thousands of U.S. dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 1,411		\$ 11,739	
Due after one year through five years	4,014		33,394	
Due after five years through ten years	697		5,798	
Due after ten years	459	¥ 1,000	3,819	\$ 8,319
Total	¥ 6,581	¥ 1,000	\$ 54,750	\$ 8,319

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise	¥ 247	¥ 111	\$ 2,055
Finished products	3,364	4,190	27,987
Work in process	145	182	1,206
Raw materials and supplies	720	878	5,990
Total	¥ 4,476	¥ 5,361	\$ 37,238

5. LIABILITY FOR RETIREMENT BENEFITS

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

Such severance payments are made in the form of a lump-sum payment from the Company, in case employees retire before the normal retirement age.

The Company has a non-contributory funded pension plan. The non-contributory funded pension plan covers employees only in case they retire at the normal retirement age.

Under the pension plan, employees terminating their employment at the normal retirement age are entitled to receive an annuity or a lump-sum payment at the selection of the terminating employee.

Liabilities for employees' retirement benefits as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 4,541	¥ 4,465	\$ 37,778
Fair value of plan assets	(2,689)	(2,584)	(22,371)
Unrecognized actuarial net loss	(433)	(440)	(3,602)
Liabilities presented on the consolidated balance sheets	¥ 1,419	¥ 1,441	\$ 11,805

In addition to the aforementioned pension plan, the Company has joined the Tokyo Pharmaceutical Welfare Annuity Foundation, which is established as a mutual pension plan for employees in the same industrial parties. The projected benefit obligation above does not include that of the Foundation. The Company's portion of the plan assets amounted to ¥3,677 million (\$30,591 thousand) as of March 31, 2003.

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 312	¥ 302	\$ 2,596
Interest cost	111	107	923
Expected return on plan assets	(64)	(60)	(532)
Recognized actuarial loss	48	40	399
Installment on the welfare annuity	166	165	1,381
Others	130	44	1,082
Net periodic benefit costs	¥ 703	¥ 598	\$ 5,849

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%
Recognition period of actuarial gain/loss	10 years	10 years

The amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

6. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.6% for the years ended March 31, 2003 and 2002.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.6% to 39.5%, effective for years beginning April 1, 2004. The effects of this change on deferred taxes in the consolidated financial statements for the year ended March 31, 2003 were as follows:

Deferred tax assets, net of deferred tax liabilities:	
Decrease by ¥31 million (\$258 thousand)	
Income taxes — Deferred:	
Increase by ¥25 million (\$208 thousand)	
Unrealized loss on available-for-sale securities:	
Increase by ¥6 million (\$50 thousand)	

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Accrued bonuses	¥ 275	¥ 229	\$ 2,288
Enterprise taxes	140	115	1,165
Liability for directors' and corporate auditors' retirement benefits	133	130	1,106
Liability for employees' retirement benefits	234	196	1,947
Other	265	165	2,205
Less valuation allowance	(12)		(100)
Total deferred tax assets	1,035	835	8,611
Deferred tax liabilities:			
Reserve for advanced depreciation and other	4	4	34
Total deferred tax liabilities	4	4	34
Net deferred tax assets	¥ 1,031	¥ 831	\$ 8,577

7. CONTINGENT LIABILITIES

At March 31, 2003, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of employees' housing loans	¥ 797	\$ 6,631
Recourse obligation for the balance on the transfers of payables in factoring transactions	1,135	9,443

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥46,097 million (\$383,502 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

The Company has following stock option plan. The plan provides for granting options to directors and employees to 228 thousand shares of the Company's common stock in the period from July 1, 2004 to June 29, 2007. The options will be granted at an exercise price of ¥2,687 (\$22.35). The Company plans to issue acquired treasury stock upon exercise of the stock options.

9. LEASES

The Group, as a lessee, leases certain machinery, computer equipment and other assets, and as a lessor, leases certain bed.

Total lease payments included in cost of sales and selling, general and administrative expenses under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥112 million (\$932 thousand) and ¥94 million for the years ended March 31, 2003 and 2002, respectively. Total lease revenues were ¥0 million (\$4 thousand) for the year ended March 31, 2003.

(1) The Group as Lessee

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Acquisition cost	¥ 425	¥ 437	\$ 3,536
Accumulated depreciation	264	219	2,197
Net leased property	¥ 161	¥ 218	\$ 1,339

Obligations under finance leases :

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 91	¥ 93	\$ 757
Due after one year	74	131	616
Total	¥ 165	¥ 224	\$ 1,373

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Depreciation expense	¥ 104	¥ 88	\$ 865
Interest expense	6	7	50
Total	¥ 110	¥ 95	\$ 915

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

(2) The Group as Lessor

Pro forma information of leasing property such as acquisition cost, accumulated depreciation, credits under finance lease, depreciation expense and interest income of finance leases that do not transfer ownership of the leasing property to the lessee on an "as if capitalized" basis for the year ended March 31, 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	Acquisition cost	¥ 15	
Accumulated depreciation	1		9
Net leased property	¥ 14		\$ 116

Credits under finance leases:

	Millions of yen		Thousands of U.S. dollars
	Due within one year	¥ 2	
Due after one year	12		99
Total	¥ 14		\$ 116

Depreciation expense and interest income, which are reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,075 million (\$8,943 thousand) and ¥983 million for the years ended March 31, 2003 and 2002, respectively.

11. DERIVATIVES

The Group enters into foreign exchange forward contracts in order to hedge market risk. Foreign exchange forward contracts were used to hedge foreign exchange risk associated with certain liabilities denominated in the foreign currency.

The Group does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk and credit risk from potential fluctuations in foreign exchange rates. The Group does not anticipate any losses arising from credit risk because the counterparties to those derivatives are limited to highly rated major financial institutions.

Derivative transactions are controlled by the finance department in accordance with the Group's internal regulations and are periodically reported by the finance manager in regular meetings of the Board of Directors.

All derivatives were excluded from the disclosure of market value information because all of them were qualified for hedge accounting and recorded on the consolidated balance sheets as of March 31, 2003 and 2002.

12. SUBSEQUENT EVENT

On June 27, 2003, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2003:

	Millions of yen		Thousands of U.S. dollars
	Ordinary year-end cash dividends, ¥12 (\$0.10) per share	¥ 377	
Bonuses to directors	37		308
Total	¥ 414		\$ 3,444

At the general shareholders meeting held on June 27, 2003, the Company's shareholders approved the following the purchase of treasury stock for the related reduction of retained earnings:

Purchase of Treasury Stock

The Company was authorized to repurchase up to 1,000 thousand shares of the Company's common stock (aggregate amount of ¥2,000 million) as treasury stock until the next general shareholders meeting.

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Paramount Bed Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Paramount Bed Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paramount Bed Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2003

Corporate History

In 1947 the Company's founder, Ryusuke Kimura, bought scrapped hospital beds that were delivered to the government during World War II, refurbished them, and sold them. More than half a century has passed since then, and the Company's brief history up to now is described below.

- May 1947:** Ryusuke Kimura founds Kimura Shindai Seisakujo Ltd. as a private enterprise, and starts manufacturing hospital beds.
- May 1950:** Kimura Shindai Industry Co., Ltd. is established with capital of 200 thousand yen. Paramount Bed is adopted as the brand name.
- May 1953:** Edogawa plant is built.
- July 1955:** Gatch (hospital) bed is developed.
- May 1961:** Head office is moved to current location.
- April 1962:** KA-45, the first electric bed in Japan, is developed and sold.
- March 1966:** Kyushu sales office (now Fukuoka branch) is set up.
- May 1966:** Chiba plant is built.
- February 1970:** Matsuo plant is built and absorbs Edogawa plant operation.
- February 1971:** Osaka branch is set up.
- January 1972:** KA-500 and KA-600 Series hospital beds are developed and sold.
- September 1977:** Hiroshima and Nagoya sales offices (now Hiroshima branch and Nagoya branch) are set up.
- June 1980:** Scot-klean (automatic urine receptacle) is developed and sold.
- December 1983:** KQ-100 (Aura electric bed) home-care bed is developed and sold.
- July 1986:** The Company absorbs Paramount Sendai Co., Ltd. (now Sendai branch) and Paramount Sapporo Co., Ltd. (now Sapporo branch).
- March 1987:** Corporate name is changed to Paramount Bed Co., Ltd.
- December 1987:** The Company shares are listed on the JASDAQ market.
- November 1988:** Paracare Mattress, a mattress made from new material, is developed and sold.
- October 1990:** Hestia Series (beds for elderly-care facilities) is developed and sold.
- April 1991:** Ryusuke Kimura and Kenji Kimura become Chairman and President, respectively.
- January 1992:** KA-900 Series (microcomputer controlled electric beds) is developed and sold.
- May 1992:** Yokohama branch is set up.
- October 1993:** Rakusho Series (home-care beds) is developed and sold.
- December 1993:** The Company shares are listed on the Second Section of the Tokyo Stock Exchange.
- June 1994:** Central showroom is set up.
- September 1995:** PT. Paramount Bed Indonesia is set up as an overseas subsidiary.
- May 1996:** Takamatsu branch is set up.
- September 1996:** The Company shares are listed on the First Section of the Tokyo Stock Exchange.
- April 1997:** Kyma Aura Bed Series (home-care beds) is developed and sold.
- October 1997:** Customer Service Center is set up.
- October 1998:** KA-6000 Series (hospital beds) is developed and sold.
- April 1999:** New Scot-klean (automatic urine receptacle) is developed and sold.
- May 1999:** Obtain ISO9001 certification.
- October 1999:** Aura 21 Series (home-care beds) is developed and sold.
- February 2000:** Club Paramount Series (highly functional family beds) is developed and sold.
- October 2000:** Saitama branch is set up.
- February 2001:** Callisto Series (beds for elderly-care facilities) is developed and sold.
- October 2001:** Nagoya branch relocates to newly-built office.
- January 2002:** Shanghai representative office is set up.
- July 2002:** PARA TECHNO Co., Ltd. is set up as a consolidated subsidiary.
- May 2003:** A new brand INTIME, which provides sound sleep and excellent health, is established.
- July 2003:** Paramount Universal Design Station (PUDS) is set up.



Gatch (hospital) bed



KA-500 Series hospital bed



Aura electric bed



Hestia Series



Rakusho Series home-care bed



Club Paramount highly functional family bed



Callisto Series

Corporate Data

Corporate Name:	Paramount Bed Co., Ltd.
Head Office:	14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670, Japan
Founded:	May 1947
Capital:	¥6,591 million
Number of Employees:	1,010

Board of Directors and Corporate Auditors

(As of June 27, 2003)

President and Representative Director:	Kenji Kimura
Vice-president and Representative Director:	Kyosuke Kimura
Directors:	Ichiro Motozu Michihide Kimura Tadaharu Kato Ikuo Sakamoto
Standing Corporate Auditors:	Katsura Ogino Tadahiro Sekine
Corporate Auditors:	Kenji Sasanuma Tetsuo Takekawa Etsuji Ikegami

Shareholder Information

Authorized Shares:	100,000,000
Issued Shares:	31,682,526
Number of Shareholders:	22,678

Major Shareholders

	Number of Shares Owned (Thousands)	Percentage of Voting Right to Total Shares Issued (%)
Kimura Kosan Co., Ltd.	6,607	21.1
Kenji Kimura	3,134	10.0
Kyosuke Kimura	2,413	7.7
Michihide Kimura	1,595	5.1
Mizuho Bank, Ltd.	1,570	5.0
The Kimura Foundation for Nursing Education	801	2.5
Japan Trustee Services Bank, Ltd. (Trust)	799	2.5
Ryusuke Kimura	699	2.2
Mizuho Corporate Bank, Ltd.	626	2.0
The Master Trust Bank of Japan, Ltd. (Trust)	609	1.9

Ownership among Shareholders

	Number of Shares Owned (Thousands)	Percentage of Total Shares Issued (%)
Financial institutions	65,396	20.6
Security firms	1,322	0.4
Foreign corporations	4,443	1.4
Other domestic corporations	80,729	25.5
Individuals and others	162,224	51.2
Treasury stock	2,709	0.9

Network

Domestic

Head Office

14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670
Tel. +81-3-3648-1111(key number)
Tel. +81-3-3648-1171(Sales division)

Branches

- **Sapporo Branch**
318-11, Nishi 13-chome, Minaminijo, Chuo-ku, Sapporo 060-0062
Tel. +81-11-271-1181
- **Sendai Branch**
3-3, Oroshi-machi 2-chome, Wakabayashi-ku, Sendai 984-0015
Tel. +81-22-239-5211
- **Saitama Branch**
4-7, Kamiochiai 9-chome, Saitama 338-0001
Tel. +81-48-852-0707
- **Yokohama Branch**
1715-1, Tsuruma, Machida, Tokyo 194-0004
Tel. +81-42-795-8800
- **Nagoya Branch**
20-17, Izumi 1-chome, Higashi-ku, Nagoya 461-0001
Tel. +81-52-963-0600
- **Osaka Branch**
3-33, Tosabori 2-chome, Nishi-ku, Osaka 550-0001
Tel. +81-6-6443-8791
- **Hiroshima Branch**
8-5, Yokogawa-cho 3-chome, Nishi-ku, Hiroshima 733-0011
Tel. +81-82-293-1311
- **Takamatsu Branch**
223-1, Goto-cho, Takamatsu, Kagawa 761-8031
Tel. +81-87-881-8800
- **Fukuoka Branch**
14-20, Hakataeki-higashi 3-chome, Hakata-ku, Fukuoka 812-0013
Tel. +81-92-461-1131

INTIME Shops and PUDS (Paramount Universal Design Station)

- **INTIME Kyobashi and PUDS**
Sumitomo Mitsui Hull Tepco Bldg.1F
6-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031
Tel.+81-3-5250-1515(INTIME)
*Opened on May 17, 2003
Tel.+81-3-5250-1535(PUDS)
*Opened on July 2, 2003
- **INTIME Shinsaibashi**
Sanei Shinsaibashi Bldg.1F
13-15, Nishishinsaibashi 1-chome, Chuo-ku, Osaka 542-0086
Tel.+81-6-6245-9021
*Opened on May 17, 2003
- **INTIME Nagoya**
Address: Same as Nagoya Branch
Tel.+81-52-963-6800
*Opened on May 17, 2003

Plants

- **Chiba Plant**
2078, Shirahata, Naruto-machi, Sambu-gun, Chiba 289-1306
Tel. +81-475-82-6111
- **Matsuo Plant**
617, Kashikehongo, Matsuo-machi, Sambu-gun, Chiba 289-1537
Tel. +81-479-86-3331
- **Ohira Plant**
690-1, Aza Uenohara, Shimonogo, Matsuo-machi, Sambu-gun,
Chiba 289-1536
Tel. +81-479-86-2121

Subsidiary

- **PARA TECHNO CO., LTD.**
14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670
Tel. +81-3-3648-3331

Overseas

Representative Office

- **Shanghai Representative Office**
Paramount Bed Co., Ltd. Shanghai representative office
Suite 1701, Shanghai Plaza Building, No.138, Huai Hai M. Road,
Shanghai 200021, P.R.China
Tel. +86-021-5383-5111 or 5383-6111
URL: <http://www.paramountbed.com/>

Subsidiary

- **PT. Paramount Bed Indonesia**
MM2100 Industrial Town, Block M-1-1 Export Processing Zone,
Cikarang Barat Bekasi 17520, Jawa Barat, Indonesia
Tel. +62-21-8980715



Paramount Bed Co., Ltd.
14-5, Higashisuna 2-chome,
Koto-ku, Tokyo 136-8670, Japan
Tel. +81-3-3648-1111
URL: <http://www.paramount.co.jp/>